

**REPORT OF
FINANCIAL EXAMINATION**

**BILLINGS MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2005**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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July 20, 2006
Billings, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

BILLINGS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 118 S.W. Highway 60, Billings, Missouri, telephone number (417) 744-2717. This examination began on June 5, 2006, and was concluded on June 6, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no previous examination report comments.

HISTORY

General

The Company was originally organized on May 9, 1891, as the Farmers Mutual Insurance Company of Billings, and was incorporated on August 5, 1970. On December 21, 1992, the Company amended its Articles of Incorporation and changed its name to Billings Mutual Insurance Company. On January 1, 2004, the Company and Farmers Mutual Fire and Lightning Insurance Association of Phelps County merged operations, with Billings Mutual Insurance Company remaining as the surviving entity.

The Company has a Certificate of Authority dated December 31, 1992, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Thursday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is allowed provided that voting is done by a member and that the proxy is filed with the Secretary not less than ten days prior to any meeting at which it is to be voted. A proxy shall be valid for one year or until revoked.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter.

Directors receive an annual retainer of \$2,000 plus \$350 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Charles Smith 641 Cave Springs Road Galena, Missouri	Company Secretary and Business Manager	2005-2008
Harold Hodges P.O. Box 220 Sparta, Missouri	Insurance Agent	2005-2008
Ron Welch 11330 West Farm Road 174 Republic, Missouri	Realtor	2005-2008
Wayne Eutsler 30874 State Highway 13 Galena, Missouri	Retired	2003-2006
Andy Reavis P.O. Box 321 Marionville, Missouri	Self-Employed	2003-2006
Wayne Beck 101 Murray Street Ash Grove, Missouri	Retired	2003-2006
Connie Kennemer 15211 East Farm Road 132 Springfield, Missouri	Retired	2004-2007
Andrew Bowles 9728 Lawrence Miller, Missouri	Insurance Agent	2004-2007
Gary Fowler Route 2 Sheldon, Missouri	Farmer	2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, a Secretary and a Treasurer. The Secretary and Treasurer are not required to be members of the Board of Directors.

The officers of the Company serving at December 31, 2005, were as follows:

Harold Hodges	President
Wayne Eutsler	Vice-President
Charles Smith	Secretary
Russell Dunning	Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 14, 2002, the Company amended the Articles of Incorporation to change all references to “assessments” to “premiums,” to facilitate the Company’s conversion to a non-assessable company.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$150,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$150,000 and \$175,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$1,000 deductible in aggregate for each claim.

The Company utilizes only independent producers, which are responsible for obtaining errors and omissions insurance.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has nine full-time employees and one part-time employee. The Company provides health insurance benefits to full-time employees and contributes 10% of each full-time employee's gross salary into a Simplified Employee Pension (SEP) plan. Full-time employees also receive one to three weeks of paid vacation per year, depending upon years of service. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind, liability, crop and other insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by approximately 120 licensed agencies. The producers receive commissions of 12% for liability, 8% for inland marine and 18% for all other policies.

Policy Forms and Underwriting Practices

The Company uses AAIS, Grinnell, and Billings Mutual policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are inspector/adjusters who are employees of the Company.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$12,518,751	\$2,817,690	\$5,693,811	\$1,633,272	\$410,863	\$1,141,612	\$1,045,035
2004	11,048,716	2,392,691	5,034,779	2,018,752	295,120	607,899	674,586
2003	9,944,494	2,130,449	4,224,268	3,608,767	273,213	389,114	571,547
2002	8,893,315	1,650,816	3,746,256	1,464,700	326,093	548,232	635,005
2001	8,012,566	1,405,071	2,921,772	1,730,336	399,563	719,607	774,979

At year-end 2005, 10,673 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$2,921,872	\$3,746,256	\$4,224,268	\$5,034,779	\$5,693,811
Assumed	0	0	0	0	0
Ceded	<u>(329,207)</u>	<u>(355,513)</u>	<u>(449,972)</u>	<u>(625,005)</u>	<u>(933,093)</u>
Net	<u>\$2,592,665</u>	<u>\$3,390,743</u>	<u>\$3,774,296</u>	<u>\$4,409,774</u>	<u>\$4,760,718</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written

premium ceded to the pool. The Company has a 4% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss excess with aggregate excess reinsurance agreement. The individual excess of loss section of the agreement covers wind and fire risks. The Company retains \$100,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2005 was \$.2918 for fire and \$.0355 for wind per \$1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2005 was \$2,933,381 and the annual premium paid was \$.5868 per \$1,000 of adjusted gross fire risks in force.

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's independent CPAs, Marberry, Miller & Bales, P.C., conduct an annual audit and prepare the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2005

Bonds	\$ 4,654,840
Real Estate	35,544
Cash on Deposit	7,555,054
Other Investments	89,177
Premium Receivable	9,315
Reinsurance Recoverable	80,000
Computer Equipment	94,333
Asset Write-Ins	488

Total Assets	\$ 12,518,751
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Losses Unpaid	\$ 380,235
Ceded Reinsurance Payable	72,850
Unearned Premium	2,052,071
Federal Income Tax Payable	164,821
Liability Write-Ins	\$ 147,713

Total Liabilities	\$ 2,817,690

Guaranty Fund	\$ 150,000
Other Surplus	9,551,061

Total Surplus	\$ 9,701,061

Total Liabilities and Surplus	\$ 12,518,751
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STATEMENT OF INCOME
December 31, 2005

Net Premium	\$ 4,434,182
Other Insurance Income	89,439
Net Losses Incurred	(1,557,125)
Other Underwriting Expenses	(1,824,884)

Net Underwriting Income (Loss)	\$ 1,141,612

Investment Income	\$ 410,863
Other Income	11,808

Gross Income (Loss)	\$ 1,564,283
Federal Income Tax	(519,248)

Net Income (Loss)	\$ 1,045,035
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 8,656,025
Net Income (Loss)	1,045,035

Policyholders' Surplus, December 31, 2005	\$ 9,701,061
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.

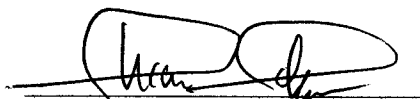
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Billings Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

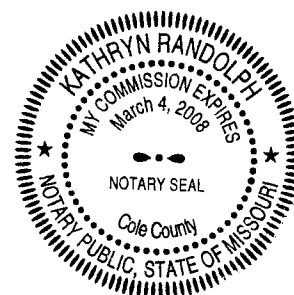

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 20th day of July, 2006.

My commission expires:

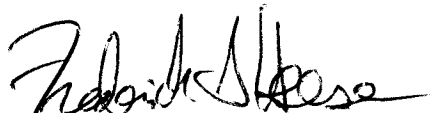
March 4, 2008


Kathryn Randolph
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance